



OBTAINING A B&I GUARANTEED LOAN

Business & Industry (B&I) Processing Guide and Application Checklist

USDA Rural Development's Business & Industry (B&I) Guaranteed Loan Program helps rural businesses by guaranteeing the loans of commercial lenders who might not otherwise extend credit. The B&I guarantee acts as an incentive to spur business lending in rural areas.

ATTENTION BUSINESSES!

The B&I program is fundamentally a lender-driven process. USDA cannot consider a B&I proposal in detail until a lender expresses serious interest in the project. Nevertheless, USDA will gladly discuss prospective B&I projects with those businesses still seeking a lender so that they can be better informed when they approach potential sources of credit.

ATTENTION LENDERS!

Whenever a lender begins to seriously consider a loan for a possible B&I guarantee they are encouraged to call USDA to discuss the project on an informal basis. USDA can give at least a tentative indication as to the eligibility of the project for a B&I guarantee. If you decide to proceed with a project, we suggest you first submit a preapplication only (see below). This saves time by allowing USDA to review the project at an early stage and direct your efforts.

THE APPLICATION PROCESS

A B&I application requires information from both the business and the lender, with the lender coordinating these efforts. The first step is to submit a preapplication for USDA's review. No forms are required in the preapplication! (See Exhibit A.) USDA will then arrange a meeting with all parties, usually at the project site. If the project appears viable, the parties will be encouraged to submit a complete application. (See Exhibit B) Please note that USDA offers free software for completing all B&I application forms ("B&I Loanpack 96"), which can be downloaded from the internet (<http://www.rdirm.usda.gov/simb/>). Within 60 days of receiving a complete application, USDA will make a final approval decision. B&I loan processing is coordinated by the Virginia USDA Rural Development State Office. Loans under \$5 million are approved by the Virginia State Office; larger loans must be approved by USDA's National Office in Washington, D.C.

Additional information and forms are available from USDA Rural Development:

| | |
|------------------------|--|
| Virginia State Office: | H. Kent Ware, Business & Cooperative Program Director Craig Barbrow, Barbara Fulcher, and Laurette Tucker, Business & Cooperative Specialists 1606 Santa Rosa Road, Suite 238, Richmond, VA 23229 804/287-1606; fax 287-1786; Kent 287-1557, Barbara 287-1604, Laurette 287-1594, and Craig 276/228-4547 |
| Lebanon Area Office: | Sally Hamer, Area Director 383 Highland Drive Suite 5 Lebanon, VA 24266 276/889-46503 ext. 123; fax 889-2105 |

Lynchburg Area Office: Travis Jackson, Area Director
 20311-A Timberlake Road
 PO Box 4337
 Lynchburg, VA 24502
 540/382-0267; fax 381-5604

Harrisonburg Area Office: Elizabeth Walker, Area Director
 1934 Deyerle Avenue, Suite D
 Harrisonburg, VA 22801
 540/433-9126; fax 432-1707

Suffolk Area Office: Steven Bigelow, Area Director
 1548 Holland Road
 Suffolk, VA 23434
 804/287-1582; fax 287-1721

A QUICK SCHEME FOR SCREENING B&I LOAN PROSPECTS

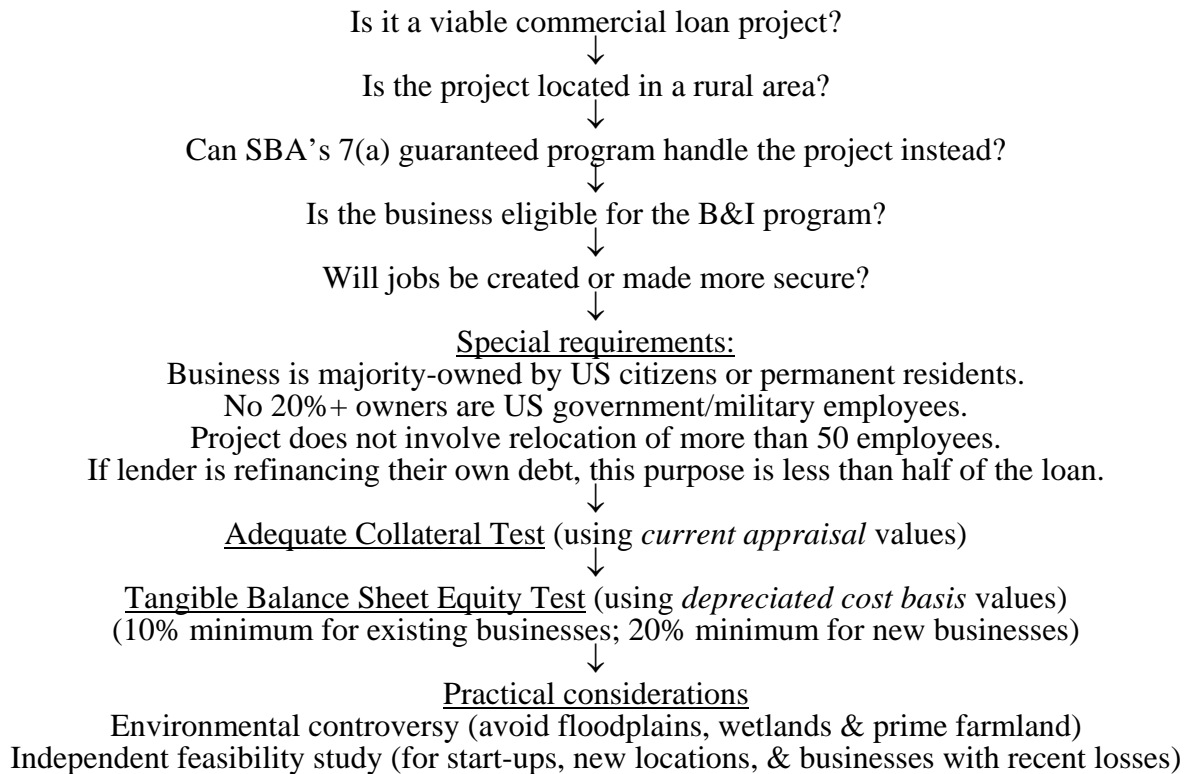


Exhibit A Contents of a B&I Preapplication

The following items are needed to complete a preapplication and must be received before a field visit can be made. Note that no forms are required at this stage.

Completed Jointly by the Lender & Applicant:

- . A *joint* letter, on the lender's letterhead, detailing:

The Lender -- contact person, tax ID number

The Applicant -- address, phone, contact person, tax ID number

The Business -- product or service, date established, organization, ownership

Its Financial Position -- assets, equity, any delinquent debt

The Project -- total cost, sources & use of funds, detail of applicant contributions

The Site -- size (acres), current state of development, surrounding land use

Employment Impact -- # of full-time equivalent jobs before and after project; average wage rate of employees

The Loan -- amount, proposed interest rate & term

Collateral -- proposed collateral, lien position, security value

Legal or regulatory concerns -- Disclose any pending adverse action against the applicant or its affiliates, officers, or principals; or indicate that there are none.

The letter must indicate the lender's willingness to finance the proposal.

Completed by the Applicant:

2. A map (e.g., a street, topographic, or parcel map) showing the exact location of the business, and indicating where any construction will occur.
3. A current balance sheet and year-to-date income statement (no more than 90 days old) for the business (including any parent, affiliate, and subsidiary firms). (*NOTE: Assets must be valued at cost less accumulated depreciation.*)
4. Accountant-prepared, year-end financial statements for the preceding 3 fiscal years (or, if a new business, for as long as the business has been in existence).
5. Detailed projected income statements, balance sheets, and cash flow statements for the next 2 years, with an explanation of the assumptions used in the forecasts. *If desired, projections may be submitted for the first year only, with the second year submitted later as part of the complete application.*
6. A business plan. *Existing businesses may elect to submit this with the complete application.*

Completed by the Lender:

7. A *pro forma* balance sheet derived from the current balance sheet (item 3 above), showing the business's new assets and debts once the proposed loan project is completed. (*NOTE: Assets must be valued at cost less accumulated depreciation.*) Use of the format provided on page 4 is encouraged.

Pro Forma Tangible Balance Sheet Equity Calculation

Recommended format for calculating pro forma tangible balance sheet equity.

Instructions:

1. Attach the current balance sheet from which the "Beginning Position" (column 1 below) figures are taken. Be sure that the "Beginning Position" values are based on depreciated book value (cost), not current market values. If the applicant's balance sheet is not prepared on a cost basis, provide an attachment explaining adjustments made to derive cost basis figures.
2. Deduct intangible assets (columns 2 & 3). Itemize intangible assets deducted in the explanation section below the table.
3. Debit and credit assets and liabilities (columns 4, 5, & 6) to reflect the effect of the B&I financing and other sources & uses of funds. Itemize debits and credits in the explanation section below the table. (Do not add assets that are intangible under Generally Accepted Accounting Principles -- e.g., take-out loan fees.)
4. Divide pro forma equity by pro forma total assets to determine % equity position.

Applicant: _____

Derived from Balance Sheet (attached) as of: _____

| | 1 | 2 | 3 | 4 | 5 | 6 |
|------------------------------|---|--|--|------------------------------------|-------------------------------------|--|
| | Beginning Balance Sheet Position | <i>less</i> Intangible Assets ¹ | <i>equals</i> Tangible Beginning Position | <i>plus</i> Debits ² | <i>less</i> Credits ³ | <i>equals</i> Pro Forma Tangible Position |
| Total Assets | | | | | | |
| Total Liabilities | | | | | | |
| Equity | | | | | | |
| | | | | | %Equity = | |

¹ Itemize intangible assets:

² Itemize debits:

³ Itemize credits:

Exhibit B Items Needed for a B&I Complete Application

In addition to the items mentioned in Exhibit A, the following information is needed for a final decision on a B&I request:

Completed Jointly by the Lender and Applicant:

1. Form 4279-1, "Application for Loan Guarantee (Business & Industry)."

Completed by the Lender:

2. The lender's credit analysis of the proposed loan. This must include spreadsheets comparing the applicant's past and projected financial statements, analyzing financial ratios, and comparing the business with SIC industry averages.
3. A current appraisal of the property to be taken as security -- real estate, equipment, etc. Real estate appraisals should be complete summary reports and must comply with the Uniform Standards of Professional Appraisal Practices. Equipment appraisals should report both a fair market value and an orderly liquidation value. *(NOTE: USDA has some discretion to approve a B&I guarantee subject to an adequate appraisal.)*
4. Credit reports. A commercial credit report on the applicant business, plus credit reports on all proposed personal and corporate guarantors (including all owners with a 20%-or-more interest in the business).
5. A draft of the lender's proposed loan agreement with the borrower. Please note that it must address all of the following issues:

Negative Covenants:

- Limitations on purchase or sale of equipment and fixed assets.
- Limitations on compensation of officers and owners.
- Restriction on dividend payments.
- Restrictions concerning consolidations, mergers, or other circumstances.
- Prohibition against assuming liabilities or obligations of others.
- Limitations on selling the business without the concurrence of the lender.

Financial Standards Covenants:

- Minimum working capital or current ratio requirement.
- Maximum debt-to-net worth ratio.

Financial Reporting Requirements:

- Type and frequency of submission of financial statements. *(Note: The borrower and all guarantors must provide financial statements at least annually. Nonprofits and public bodies must meet federal audit standards in their financial reporting.)*

Completed by the Applicant:

6. Current (not more than 90 days old) financial statements on all owners of the business that will provide a personal/commercial guaranty (normally, all owners with a 20%-or-more interest in the business).
7. Debt Collection Improvement Act certification. (Use format provided on page 7.)

NOTE: The remaining items are only required in special cases.

Item 8 is only needed if the project involves a start-up business or one that has not yet established a sufficient profitable track record. USDA will determine whether or not this will be required:

8. A feasibility study -- completed by an independent consultant agreed to by all parties -- addressing the economic, market, technical, financial, and management feasibility of the project. *It should be contracted by the lender, but the cost may be included in the loan.*

*Item 9 is only needed if the proposed loan is more than \$1 million **and** will increase direct employment by more than 50 employees:*

9. Form 4279-2, "Certification of Non-Relocation and Market Capacity Information Report."

Item 10 is only needed if the loan will be secured by real estate:

10. FEMA Form 81-93, "Standard Flood Hazard Determination" (flood zone certification)

Item 11 is only needed if the project involves (a) construction on a previously undisturbed site or (b) construction affecting a structure that is 50+ years old:

11. A report on the project site from the State Historic Preservation Officer, Division of Project Review, 2801 Kensington Avenue, Richmond, VA 23221. **(The earliest possible submittal of this is encouraged to expedite USDA's environmental review.)**

Item 12 is needed if the security property has environmental contamination problems:

12. Any completed environmental studies (e.g., VISTA, Phase I or Phase II) on the real estate, along with mitigation/clean-up cost estimates. *USDA may request further studies.*

Item 13 is only needed if the applicant will be a franchisee:

13. A copy of the Uniform Franchise Offering Circular (UFOC).

Item 14 is only needed if the project is a commercial rental facility (retail center, office building, etc.):

14. List of committed tenants -- including type of lease (triple net, etc.), lease term (years and options to renew), square footage, rental rate per square foot, and monthly rent.

**Certification
Pursuant to
Debt Collection Improvement Act of 1996**

The undersigned has applied for assistance from USDA Rural Development's Business & Industry (B&I) guaranteed loan program. The following supplemental information is provided:

Is the applicant, or any party with a 20%-or-more ownership interest in the applicant, delinquent on any Federal debt?

☐ Yes. If "yes," attach an explanation.

☐ No.

To the best of my knowledge and belief, this certification is true and correct. The document has been duly authorized by the governing body of the applicant.

Signature

Date

Name of Applicant